Enron tapes expose blatant criminality of corporate America

Rafael Azul
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The recent release of transcripts of taped conversations among Enron electricity traders in the summer of 2001 reveals that company insiders not only knew they were stealing from California and other states, but gloated about it. The partial release of thousands of hours of tapes is a powerful indictment of the energy companies that looted California and Washington of close to $11 billion, with the support and assistance of government officials.

The tapes, during which Enron traders celebrate the misery caused to consumers and businesses by their practices, also provide a revealing glimpse into the depraved and truly criminal mentality of the American corporate elite.

The profanity-laced tapes chronicle the stealing of millions of dollars a day from California during the energy crisis that began in June 2000, and ended when then Governor Gray Davis signed long-term contracts at inflated prices. The price of electricity, which had averaged $40 a megawatt/hour, went up to as high as $1,000 a megawatt during the summer of 2000. The emergency in California cost the state government about $9 billion. Billions more were lost by California's Silicon Valley, other industries across the state, as well as consumers now forced to pay higher rates of electricity.

The existence of the tapes had been known for some time. Enron traders taped all their business conversations to keep a record of daily transactions. The Justice Department seized the transcript of the tapes during their investigation of the Enron financial collapse, which occurred in December 2001, and had successfully kept them from the public. Justice officials falsely claimed that they came under a confidentiality agreement linked to a secret settlement between the government and Williams Energy, a California Power plant owner.

This year a municipal utility in Snohomish County, Washington, involved in its own suit against Enron for a $2 billion overcharging, obtained 450 pages of transcripts. The tapes clearly provide evidence that the looting was an open secret in Enron and that both Enron President and CEO Jeffrey Skilling and Chairman Kenneth Lay were aware of the practices.

The initial release reported by the *Los Angeles Times* in mid-May is only the tip of the iceberg. More tapes were made public on June 8. Thousands of hours of taped conversations are still being kept under wraps. The government continues to resist releasing the rest of the tapes—which *CBS News* suggests are "politically explosive, smoking gun evidence" of government and industry collusion.

A September 14, 2000, tape recorded a conversation between a trader and Susan J. Mara, Enron's California director of Regulatory Affairs, over a report to be presented to top executives at the Houston headquarters of the firm "This is the time of year when government affairs has to prove how valuable it is to Ken Lay and Jeff Skilling," said Ms Mara. She then asks, "Do you know when you started overscheduling load and making buckets of money on that?"

Overscheduling was one way in which Enron bilked California of millions. Also known as "fat boy," the practice involved falsely reporting how much electricity would be needed in the future, making it appear that power shortages loomed in the horizon to justify charging California whatever Enron saw fit. Two former Enron traders have pleaded guilty to manipulating California's energy market. A third trader is awaiting trial.

In a recent declaration, Mara expanded on the conversation: "We had to show what our accomplishments were for the year." She describes an anything-goes attitude inside Enron to maximize profits. The looting strategy epitomized by 'fat boy' was not considered illegal or manipulative by upper management, according to Mara.

During a interview during the summer of 2001 for the Public Broadcasting Service's *Frontline* television show, Enron's chief operating officer Jeffrey Skilling strongly denied that the company was doing anything but playing by the rules of the free market, the working out of supply and demand.

The recently released transcripts indicate that traders were unabashed about what they were doing, repeatedly using words like lying and stealing to describe their activities:

"It's called lies. It's all how well you can weave these lies together, Shari, alright, so," says an Enron employee.

To which "Shari" responds: "I feel like I'm being corrupted now."

The first employee adds, "No, this is marketing,"

On a widely distributed tape, one Enron employee says: "He just (expletive) California... He steals money from California to the tune of about a million."

"Will you rephrase that?" asks a second employee.

"OK, he, um, he arbitrages the California market to the tune of a million bucks or two a day," replies the first.

"They're (expletive) taking all the money back from you guys?" complains an Enron employee on the tapes. "All the money you guys stole from those poor grandmothers in California?"

"Yeah, grandma Millie, man"

To which the Enron trader responds with utter contempt: "Yeah, Grandma Millie, man. But she's the one who couldn't figure out how to (expletive) vote on the butterfly ballot."

"Yeah, now she wants her (expletive) money back for all the power you've charged right up, jammed right up her (expletive) for (expletive) $250 a megawatt hour."

According to the June 1 CBS report, "when a forest fire shut down a major transmission line into California, cutting down power supplies and raising prices, Enron energy traders celebrated, singing 'burn, baby, burn.'"

The demand for electricity, an essential commodity for which there is no alternative, is considered inelastic. This means that the amount demanded will not readily fall in response to a price increase. This creates an opportunity for producers to make windfall profits by charging astronomical prices in an unregulated market.

In the wake of the 1996 deregulation of electricity in California, Enron, an energy broker, joined other energy producers, such as Reliant and Southern, in a cartel to raise electricity prices by creating the perception of a shortage.

The evidence strongly suggests that energy regulators under the Clinton and Bush administrations participated in this deception. Beginning in May 1999, the Federal Energy Regulatory Commission (FERC) turned a blind eye to complaints from California officials that the market was being fixed.

The game involved organizing the shutdown of plants owned by the energy monopolists through secret deals, which are patently illegal under the Sherman Anti-trust Act and under New Deal legislation that mandated just and reasonable prices in 1935.

This is what was being arranged during the following conversation: "If you took down the steamer [from a generating unit], how long would it take to get it back up?" an Enron worker is heard saying.

"Oh, it's not something you want to just be turning on and off every hour. Let's put it that way," another says.

"Well, why don't you just go ahead and shut her down."

Enron was also aggressively contributing to the candidacy of George W. Bush in the 2000 elections, to forestall any possible government imposition of price controls on the cartel.

"It'd be great. I'd love to see Ken Lay Secretary of Energy," says one Enron worker.

The transcripts are an indictment of the power providers and the government; both parties clearly understood the consequences of the electricity crisis to California's economy.

In one tape a trader says: "This is where California breaks." "Yeah, it sure does man," says another.

"What we need to do is to help in the cause of, ah, downfall of California," an employee is heard saying on the tapes. "You guys need to pull your megawatts out of California on a daily basis."

"They're on the ropes today," says another employee. "I exported like a (expletive) 400 megs."

"Wow,'' says another employee, "(expletive) 'em, right!"

The conversation continues, "You want to do some 'fat boys' or, or whatever, man, you know, take advantage of it."

In another tape a trader says: "You gotta think the economy is going to (expletive) get crushed, man. This is like a recession waiting to (expletive) happen."

At a time when streets in Northern California were lit only by head lights, factories shut down and families were trapped in elevators, Enron Energy traders laughed. One trader is heard saying, "Just cut 'em off. They're so (expletive). They should just bring back (expletive) horses and carriages, (expletive). Lamps, (expletive). Kerosene lamps."

In another tape a trader laughed when describing his reaction when a business owner complained about high energy prices: "I just looked at him. I said, 'Move.' (laughter) The guy was like horrified. I go, 'Look, don't take it the wrong way. Move. It isn't getting fixed anytime soon."

California officials have uncovered massive evidence of looting, fraud and collusion by the likes of Enron, Southern, Reliant and other energy producers and brokers; the state claims $8.9 billion in overcharges; yet, the FERC has only ordered a laughable $32.5 million refund for "unjust profits." FERC officials insist that they have no "persuasive evidence" that price gouging took place.

Yet the above-mentioned secret settlement with Williams Energy indicates that the FERC is well aware of what was going on. Williams Energy admits telling operators at a plant owned by AES, "Williams could provide a financial incentive .... to extend the outage." According to CBS News, secret settlements have taken place with at least one other electricity producer. Williams agreed to pay back $8 million. And while neither company would talk on camera, under a FERC settlement they admitted to no "violation or wrongdoing." The public may never know the truth because FERC sealed the evidence—documents and audiotapes of company employees arranging to keep plants shut down.

The secrecy extends beyond agreements between the power companies and government regulators. Vice President Dick Cheney has refused to release to government agencies the names of energy executives with whom he met as part of an energy task force that drafted the administration's energy policies.

Though at the time he had the power to declare a state of emergency and force the plants to stay open, Gray Davis declined to do so. Instead he used billions of dollars from a state budget surplus and a special bond sale to purchase electricity at inflated prices, initiating the economic crisis that continues to plague California today.

Wholesale electricity rates rose astronomically, while retail rates remained relatively stable, forcing the state into insolvency to make up the difference. In the end, the people of California are still paying through draconian cuts in health care, education and jobs.